Consolidated Financial Statements of

PETROKAMCHATKA PLC

(formerly PetroKamchatka Resources Plc (note 1))

As at November 30, 2009 and May 31, 2009

For the three and six month periods ended November 30, 2009 and the six month period ended November 30, 2008

(United States Dollars)

(Unaudited – See Notice of No Auditor Review of Interim Financial Statements)

The Corporation's independent auditor has not performed a review of the consolidated financial statements for the three month periods ended November 30, 2009 or for the six month periods ended November 30, 2008.

The financial information for the three month period ended November 30, 2008 has not been prepared on a basis consistent with the interim financial statements prepared for the three month period ended November 30, 2009 and therefore has not been presented herein.

PetroKamchatka Plc

(formerly PetroKamchatka Resources Plc (note 1))

Consolidated Balance Sheets (unaudited)

United States Dollars
As at

	November 30, 2009	May 31, 2009
Assets		
Current assets		
Cash and cash equivalents	$ 15,131,712	$ 2,108,822
Accounts receivable (note 4)	1,007,487	1,514,742
Prepaid expenses	181,664	146,527
	16,320,863	3,770,091
Property and equipment (note 5)	55,328,071	53,857,598
	$ 71,648,934	$ 57,627,689
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 4,108,532	$ 6,562,053
Shareholder loan (note 6)	–	395,051
	4,108,532	6,957,104
Shareholders' Equity		
Share capital (note 7(a))	91,692,190	69,731,912
Share purchase warrants (note 7(b))	7,038,779	6,960,263
Contributed surplus (note 7(d))	3,601,396	3,224,396
Currency translation adjustment	1,018,864	1,018,864
Deficit	(35,810,827)	(30,264,850)
	67,540,402	50,670,585
	$ 71,648,934	$ 57,627,689

Going concern (note 2)
Commitments and contingencies (notes 5 and 11)
Subsequent event (notes 12)

PetroKamchatka Plc

(formerly PetroKamchatka Resources Plc (note 1))

Consolidated Statements of Operations, Comprehensive Loss and Deficit (unaudited)

United States Dollars

	For the three month period ended November 30, 2009	For the six month period ended November 30, 2009	For the six month period ended November 30, 2008
Interest income	$ 366	$ 19,297	$ 35,248
Expenses			
General and administration	2,169,952	2,980,104	2,107,047
Reorganization and listing costs (note 1)	1,173,758	1,173,758	–
Financing and other costs	–	–	108,640
Foreign exchange (gain) loss	(409,371)	(324,430)	397,684
Stock-based compensation (note 7(d))	217,000	377,000	276,347
Depreciation	195,100	205,100	21,853
Write down of property and equipment (note 5)	982,582	982,582	75,417
	4,329,021	5,394,114	2,986,988
Loss before income taxes	(4,328,655)	(5,374,817)	(2,951,740)
Income taxes	–	–	–
Net loss and comprehensive loss for the period	(4,328,655)	(5,374,817)	(2,951,740)
Deficit, beginning of period	(31,311,012)	(30,264,850)	(22,452,291)
Transaction costs (note 1)	(171,160)	(171,160)	–
Deficit, end of period	$ (35,810,827)	$ (35,810,827)	$ (25,404,031)
Net loss per share	$ (0.01)	$ (0.01)	$ (0.02)
Weighted average number of common shares:			
Basic and diluted	404,501,039	372,471,085	152,607,806

See accompanying notes to consolidated financial statements

PetroKamchatka Plc

(formerly PetroKamchatka Resources Plc (note 1))

Consolidated Statements of Cash Flows (unaudited)

United States Dollars

	For the three month period ended November 30, 2009	For the six month period ended November 30, 2009	For the six month period ended November 30, 2008
Cash provided by (used in):			
Operations			
Net loss and comprehensive loss for the period	$ (4,328,655)	$ (5,374,817)	$ (2,951,740)
Items not involving cash:			
Depreciation	195,100	205,100	21,853
Stock-based compensation	217,000	377,000	276,347
Shares issued for services	49,653	49,653	120,090
Shares issued for bonuses	593,334	593,334	–
Unrealized foreign exchange gain	(425,525)	(456,705)	(749,388)
Write down of property and equipment	982,582	982,582	75,417
	(2,716,511)	(3,623,853)	(3,207,421)
Change in non-cash working capital (note 10)	1,108,829	(169,860)	136,809
	(1,607,682)	(3,793,713)	(3,070,612)
Investing			
Property and equipment expenditures (note 10)	(588,861)	(2,114,822)	(17,225,026)
Short-term investments	–	–	6,600,204
Rig loan	–	–	(4,108,758)
Change in non-cash working capital (note 10)	144,148	(1,093,104)	(4,087,501)
	(444,713)	(3,207,926)	(18,821,081)
Financing			
Issue of share capital for cash, net	8,423,682	19,812,264	11,762,652
Shareholder loan repayment	–	(395,051)	–
Change in non-cash working capital (note 10)	198,111	228,793	6,563,344
	8,621,793	19,646,006	18,325,996
Foreign exchange gain (loss) on cash held in foreign currencies	487,245	378,523	(250,315)
Increase (decrease) in cash and cash equivalents	7,056,643	13,022,890	(3,816,012)
Cash and cash equivalents, beginning of period	8,075,069	2,108,822	5,295,320
Cash and cash equivalents, end of period	$ 15,131,712	$ 15,131,712	$ 1,479,308

See accompanying notes to consolidated financial statements

1. General:

On December 23, 2008, PetroKamchatka Plc (the “Corporation” or ‘PKP”) was incorporated under the Companies (Jersey) Law 1991 by directors and officers of PetroKamchatka Resources Plc (“PKR”) with the intent to have it acquire all the shares of the PKR. PKR was incorporated on November 23, 1998 under the Business Corporations Act (Yukon). The name was changed from CEP International Petroleum Ltd. to PetroKamchatka Resources Ltd. on December 31, 2008. PKR redomiciled to Cyprus on August 25, 2009 as “PetroKamchatka Resources Plc”. PKR is principally engaged in the acquisition, development and exploration of petroleum and natural gas in the Russian Federation. Since inception, the efforts of the Corporation have been devoted to identifying and acquiring exploration and production licenses and conducting exploration activities thereon. To date, the Corporation has received no revenue from these operations.

In October 2009, PKP issued a Take-Over Bid Circular to the shareholders of (“PKR”), to acquire all of the issued and outstanding Class A Common Shares of PKR including any that would become outstanding upon the conversion of warrants of PKR or exercise of options of PKR and to acquire all of the issued and outstanding warrants of PKR (the “Offer”).

The shareholders of PKR received one share of PKP for each PKR share held. The warrant holders of PKR received one warrant of PKP for each warrant of PKR held. The PKP warrants and options were issued on substantially similar terms and conditions as the PKR warrants and options.

As at the date of the Offer, PKR had 398,879,219 Class A Common Shares outstanding and had commitments outstanding to issue a further 21,163,835 Class A Common Shares for a total of 420,043,055. PKR also had outstanding 19,516,940 warrants to purchase Class A Common Shares and had 21,325,000 options outstanding to purchase Class A Common Shares at exercise prices ranging from $0.10 to CAD$1.25 per option. PKP acquired PKR effective November 23, 2009.

The Corporation has followed the continuity of interest basis of accounting whereby the Corporation is considered a continuation of PKR. These financial statements reflect the assets, liabilities and results of operations of PKR for periods prior to the acquisition by PKP. The balance of the shares have now been acquired by PKP, therefore PKR has been consolidated as a 100% owned subsidiary of PKP. As PKP had no significant assets, liabilities, capital, income or expense prior to the acquisition, the transaction has had no significant impact on the financial statements, except for transaction costs. These were included in expense as part of reorganization and listing costs.

1. General (continued):

On October 2, 2009, the Corporation entered into an Arrangement Agreement with Bluerock Acquisition Corp. (“Bluerock”) a capital pool company listed on the TSX Venture Exchange to complete a business combination. The arrangement was approved at a special meeting of the Bluerock shareholders and by the Court of Queen’s Bench of Alberta on November 25, 2009 resulting in the Corporation issuing 6,626,501 common shares, on the basis of 0.46837 of a common share for each Bluerock common share outstanding and 187,348 warrants. Bluerock had no operating assets and limited working capital. As a result, the transaction has not been recorded as a business combination, but rather as a capital transaction.

Details of the acquisition were as follows:

	Number of shares	Amount
Working capital (including cash of $171,160)		$ 98,840
Common shares issued to Bluerock shareholders	6,626,501	$ 98,840

Transaction costs incurred by Bluerock relating to the acquisition, of $171,160 have been recorded as a charge to deficit to the extent of cash available in Bluerock. Additional costs related to the Bluerock transaction, the PKP acquisition of PKR and the listing of the common shares of PKP for trading on the TSX Venture Exchange have been expensed as reorganization and listing costs.

2. Going concern:

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Corporation will realize its assets and discharge its liabilities in the normal course of operations.

The Corporation presently does not have sufficient funds to meet all of its exploration and drilling commitments on its licenses in Kamchatka, Russia (see note 5).

During the six month period ended November 30, 2009, the Corporation raised net cash proceeds of $11,388,579 and $8,423,682 through two private placements and became a listed public company (see notes 1 and 7). Management monitors its capital spending on its projects in Russia and general and administrative expenses and will make modifications to its current plans if necessary. If the Corporation is unable to raise funds as needed, the Corporation may be in breach of its funding obligations under its agreements with KNOC Kamchatka Petroleum Limited (“KKPL”) and therefore could lose part of its interest in the Russian properties. Management believes the going concern assumption to be appropriate for these consolidated financial statements. If the going concern assumption was not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, reported expenses and the balance sheet classifications used.

3. Significant accounting policies:

The consolidated financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). These unaudited interim consolidated financial statements are consistent with the accounting policies and method of application used in the preparation of the audited consolidated financial statements as at May 31, 2009 and for the year then ended. These unaudited interim financial statements do not include all of the information and disclosures required by GAAP applicable to annual financial statements and, therefore, should be read in conjunction with the audited consolidated financial statements as at May 31, 2009. In the preparation of these consolidated financial statements, management has made estimates and assumptions that affect the recorded amounts of certain of the Corporation's assets, liabilities and expenses. The most significant estimates relate to the cost recovery assessment for property and equipment. While it is the opinion of management that these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below, actual results could differ from the estimates made.

(a) Basis of presentation:

All consolidated financial statement amounts are stated in United States currency. The Corporation determined that, effective at the beginning of the 2007 fiscal year, the United States dollar was its functional currency.

The consolidated financial statements include the accounts of the Corporation and its subsidiaries as well as its proportionate share of the accounts of its joint interest corporations. The Corporation conducts certain of its oil and gas exploration activities on a joint interest basis. These consolidated financial statements reflect only the Corporation's proportionate interest in such activities (see note 5).

(b) Petroleum and natural gas properties:

At present, all activities of the Corporation are in the exploration stage. The Corporation follows the full cost method of accounting for oil and gas properties whereby all costs of exploring for and developing oil and gas reserves are capitalized in cost centers on a country-by-country basis. Such costs include land acquisition costs and geological and geophysical expenses. All general and administrative costs are expensed as incurred. Carrying costs directly attributable to property and equipment under construction are capitalized.

3. Significant accounting policies (continued):

(b) Petroleum and natural gas properties (continued):

Upon the commencement of commercial production, capitalized costs, less the carrying value of unevaluated properties, will be depleted within each cost centre using the unit-of-production method based upon estimated proven reserves before royalties as determined by independent reservoir engineers. For the purposes of this calculation, natural gas will be converted to oil on an energy equivalent basis. The cost of acquiring and evaluating unproven properties are initially excluded from the depletion calculation. These properties are assessed periodically for impairment. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the costs subject to depletion. Proceeds from the sale of petroleum and natural gas properties will be accounted for as an adjustment to capitalized costs, with no gain or loss recognized, unless such adjustment would alter the rate of depletion and depreciation by more than 20%.

In applying the full cost method, the Corporation will calculate a ceiling test whereby the carrying amount of property and equipment is compared to the sum of the undiscounted cash flows expected to result from the future production of proved reserves and the sale of unproved properties. Cash flows will be based on third party quoted forward prices, adjusted for transportation and quality differentials. Should the ceiling test result in an excess of the carrying amount, the Corporation would then measure the amount of impairment by comparing the carrying amounts of property and equipment to an amount equal to the estimated net present value of future cash flows from proved plus probable reserves and the sale of unproved properties. The Corporation's risk-free interest rate will be used to arrive at the net present value of the future cash flows. Any excess carrying amount would be recorded as impairment and included in depletion and depreciation.

(c) Asset retirement obligations:

The Corporation recognizes the fair value of an asset retirement obligation in the period in which it is incurred when a reasonable estimate of the fair value can be made. The fair value of the estimated obligation is recorded as a liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on the unit-of-production method based on proved reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is expensed to income in the period. Actual costs incurred upon the settlement of the obligation are charged against the liability.

3. Significant accounting policies (continued):

(d) Drilling rig and equipment - Russia:

The drilling rig equipment is depreciated using the straight-line method over seven years, the estimated useful life of the asset. The costs of normal maintenance and repairs are charged to expense as incurred. Material expenditures that increase the life of an asset will be capitalized and depreciated over the estimated remaining useful life of the asset. The cost of equipment sold, or otherwise disposed of, and the related accumulated depreciation will be removed from the accounts and any gain or loss will be reflected in current operations.

(e) Office furniture and equipment:

Office furniture and equipment is recorded at cost upon acquisition. Depreciation is provided for on a declining basis with rates ranging from 30% to 100% per annum. Additions during the period are depreciated at 50% of the assigned rate.

(f) Stock-based compensation:

The Corporation uses the fair value method for accounting for all stock and other stock-based payments, which requires the use of the fair value method of valuing all stock options granted and other stock-based payments whether they be to employees, directors or non-employees. The fair value is recognized in earnings over the vesting period of the options as stock-based compensation expense with a corresponding increase to contributed surplus. Stock-based compensation for options granted to directors and employees is based on the estimated fair value at the time of the grant. Stock-based compensation for options granted to consultants is based on the estimated fair value at each balance sheet date until the related options are fully vested. Upon the exercise of the stock options, consideration paid together with the amount previously recognized to contributed surplus is recorded as an increase to share capital.

(g) Foreign currency translation:

As the Corporation's activities are principally international in nature and are primarily denominated in United States dollars, the Corporation determined, effective June 1, 2006, that the functional currency of its operations is United States dollars. Foreign currency amounts are expressed in United States dollars using the temporal method. Under this method, monetary assets and liabilities are translated at the rates of exchange at the balance sheet date; non-monetary assets and related depreciation, amortization and write-downs are translated at historic rates; revenues and expenses are translated at rates in effect as they have occurred. Foreign exchange gains and losses are recognized in earnings.

(h) Cash and cash equivalents:

Cash and cash equivalents are comprised of cash and highly liquid investments with original maturities of three months or less.

3. Significant accounting policies (continued):

(i) Future income taxes:

The Corporation uses the asset and liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the consolidated financial statements and their respective tax basis, using income tax rates substantively enacted at the balance sheet date. The effect of a change in rates on future income tax liabilities and assets is recognized in the period in which the change occurs. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

(j) Revenue recognition:

Revenues associated with the sale of crude oil, natural gas and natural gas liquids will be recorded when title passes to the customer. Revenues from properties in which the Corporation has an interest with other producers will be recognized on the basis of the Corporation's net working interest.

(k) Per share data:

Basic per share amounts are computed by dividing net loss and comprehensive loss by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

(l) Use of estimates:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from and affect the results reported in these consolidated financial statements.

(m) Accounting changes:

Effective June 1, 2007 the Corporation adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"): Section 3855 "Financial Instruments – Recognition and Measurement", Section 1530 "Comprehensive Income", Section 3865 "Hedges" and Section 3861 "Financial Instruments – Disclosure and Presentation". These new standards were adopted prospectively. Adoption of these standards had no impact on these consolidated financial statements.

3. Significant accounting policies (continued):

(m) Accounting changes (continued):

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

Financial assets that are purchased and incurred with the intention of generating profits in the near term are classified as 'held-for-trading'. These instruments are accounted for at fair value with the change in the fair value recognized in net income during the period. Cash and cash equivalents and short-term investments are classified as 'held-for-trading'.

Financial assets classified as 'available-for-sale' are carried at fair value with the changes in fair value recorded in other comprehensive income. When a decline in fair value is determined to be other than temporary, the cumulative loss included in accumulated other comprehensive income is removed and recognized in net income. Gains and losses recognized on disposal of 'available-for-sale' securities are recognized in other income. The Corporation does not have any financial assets classified as 'available-for-sale'.

Financial assets that have a fixed maturity date and which the Corporation has the intention and the ability to hold to maturity are classified as 'held-to-maturity' and accounted for at amortized cost using the effective interest rate method. The Corporation does not have any financial assets classified as 'held-to-maturity'.

Loans and receivables are accounted for at amortized cost. This classification is consistent with the classification under the prior accounting standards. Share subscriptions receivable and accounts receivable are classified as loans and receivables.

Other liabilities are accounted for at amortized cost and include all liabilities, other than derivatives. This classification is consistent with the classification under the prior accounting standards. Accounts payable and accrued liabilities are classified as other liabilities.

Derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value. Changes in the fair values of derivative instruments are recognized in net loss.

Comprehensive income (loss) is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. When amounts are recorded in accordance with this new standard, the Corporation will report a new category, accumulated comprehensive income, in the shareholders' equity section of the balance sheet.

3. Significant accounting policies (continued):

(m) Accounting changes (continued):

Effective June 1, 2008 the Corporation adopted the following new accounting standards issued by the CICA: Section 1535 "Capital Disclosures", Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation". These new sections replace financial instruments – disclosure and presentation, revising and enhancing the disclosure requirements, and carrying forward unchanged the presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 1535 specifies the disclosure of information about an entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether the entity has complied with any externally imposed capital requirements; and if the entity has not complied, the consequences of non-compliance. Adoption of this standard has resulted in additional note disclosures in the Corporation's consolidated financial statements (see note 9).

Section 3862 and Section 3863 specify the standards of presentation and enhanced disclosures on financial statements, particularly with respect to the nature and extent of risks arising from financial instruments and how the entity manages those risks. The standards have resulted in increased disclosures provided in the Corporation's consolidated financial statements (see note 9).

Effective June 1, 2008 the Corporation adopted the new accounting standard, Section 3064 "Goodwill and Intangible Assets", issued by the CICA, replacing Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. Adoption of these standards had no impact on the Corporation's consolidated financial statements for the year ended May 31, 2009 and the six month period ended November 30, 2009.

In April 2008, the CICA published the exposure draft "Adopting IFRSs in Canada". The exposure draft proposes to incorporate International Financial Reporting Standards ("IFRS") into the CICA Accounting Handbook effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. At this date, publicly accountable enterprises will be required to prepare financial statements in accordance with IFRS. The International Accounting Standard Board ("IASB") will also continue to issue new accounting standards during the conversion period. As a result, the final impact of adopting IFRS on the Corporation will only be known once all the applicable IFRS are issued. The Corporation continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

3. Significant accounting policies (continued):

(m) Accounting changes (continued):

In January 2009, the CICA Accounting Standards Board ("AcSB") issued CICA Handbook Section 1582, "Business Combinations", which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. Section 1582 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier application permitted. The adoption of section 1582 will affect the accounting for business combinations, if any, by the Corporation on or after June 1, 2011.

In January 2009, the AcSB issued CICA Handbook Sections 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", which replace existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. The Corporation is currently assessing the impact that the adoption of these Sections may have on its results of operations or financial position.

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, Financial Instruments – Disclosures. The amendments include the enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instruments disclosure standards in IFRS. The Corporation will include these additional disclosures in its annual financial statements for the year ending May 31, 2010.

4. Accounts receivable:

Accounts receivable include $938,478 which is the Corporation's proportionate share of net refunds from the Russian Tax Authority for Russian value added taxes which have been received subsequent to November 30, 2009.

5. Property and equipment:

	November 30, 2009			
	Cost	Accumulated depreciation	Accumulated write-down	Net Book Value
Petroleum and natural gas properties:				
Canada	$ 4,943,573	$ -	$ (4,943,573)	$ -
Russia	42,553,392	-	-	42,553,392
	47,496,965	-	(4,943,573)	42,553,392
Joint interest in drilling rig	8,444,381	-	(3,464,999)	4,979,382
Drilling rig and equipment - Russia	7,784,245	(185,000)	-	7,599,245
Office furniture and equipment	412,514	(216,462)	-	196,052
	$ 64,138,105	**$ (401,462)**	**$ (8,408,572)**	**$ 55,328,071**

	May 31, 2009			
	Cost	Accumulated depreciation	Accumulated write-down	Net Book Value
Petroleum and natural gas properties:				
Canada	$ 4,943,573	$ -	$ (4,943,573)	$ -
Russia	40,190,403	-	-	40,190,403
	45,133,976	-	(4,943,573)	40,190,403
Joint interest in drilling rig	8,444,381	-	(2,482,417)	5,961,964
Drilling rig and equipment - Russia	7,498,228	-	-	7,498,228
Office furniture and equipment	403,365	(196,362)	-	207,003
	$ 61,479,950	$ (196,362)	$ (7,425,990)	$ 53,857,598

All of the Corporation's petroleum and natural gas properties in Russia and Canada are considered unevaluated. The ultimate recovery of the property and equipment cost is dependent upon the existence and commercial exploitation of petroleum and natural gas reserves or a sale of properties to a third party. The Corporation presently does not have sufficient cash to fund all of its planned exploration programs on its Russian properties. Uncertainties regarding the political, legal, tax or regulatory envi ronment, including the potential for adverse and retroactive changes with respect to the Corporation's operations in the Russian Federation could significantly affect the Corporation and the ultimate cost recovery of its assets.

5. Property and equipment (continued):

(a) Russia:

In October 2009, the Corporation began using and depreciating the drilling rig and equipment acquired for drilling on the Tigil block. The drilling rig and equipment depreciation for the three and six month period ended November 30, 2009 was $185,000 using the straight-line method over seven years, the estimated useful life of the asset.

Exploration licenses in Russia are issued by the federal Ministry of Natural Resources (“MNRF”) and grant the holder of the license the right to explore for oil and natural gas reserves within the area specified in the license. In the event of a commercial discovery, the Corporation has the right to convert parts of the exploration license into a production license. Exploration licenses have an associated license agreement, which specifies a required geological and geophysical work program to be completed.

The Corporation, has an effective 45.0% indirect interest in, and is the operator of, two exploration licenses (the Tigil and Icha Licenses) located in the Koryakia Autonomous Okrug in the Kamchatka peninsula in the far east of Russia. The Corporation’s indirect interest increased from 42.5% to 45% on August 11, 2009 after it acquired an additional 5% equity ownership of its Russian subsidiary from a minority shareholder (see note 7).

On January, 29, 2008, the Corporation obtained a third exploration license (“Urginskaya”) in the Kamchatka peninsula in which the Corporation has an indirect effective 90% interest. The Urginskaya license covers approximately 2,134 square kilometers and is valid until February 15, 2013. The Urginskaya license specifies that the license holder must shoot a minimum of 200 kilometers of seismic by February 1, 2010 and drill and complete one well within the first three years of the license term. The Corporation is seeking an extension of these commitments. In the event an extension is not granted, the license will be forfeited. In September 2009, the Corporation acquired four additional licenses in the Kamchatka peninsula of Russia. The Corporation has an effective 100% interest in these licenses which are valid until September 2014 and specify minimum seismic, drilling and completion requirements in the first two to three years of the license term.

The Tigil license covers approximately 3,274 square kilometers and was granted to the Corporation on December 29, 2005. The license is valid until December 31, 2010. The Tigil license specifies that the license holder must shoot 400 kilometers of seismic data during 2006 and 2007 and drill two wells to a depth of 3,000 meters during 2007 and 2008. The Corporation completed its requirements with respect to the seismic program. The Corporation also obtained an extension of its commitment to drill its wells whereby one well was required to be drilled by December 31, 2009, and the remaining well by December 31, 2010. The Corporation completed drilling the first well in January 2010.

5. Property and equipment (continued):

(a) Russia (continued):

On December 29, 2006, the Corporation obtained the Icha license covering approximately 3,777 square kilometers. The requirements for seismic data were completed in April 2007. The license also requires that one well be drilled and completed by October 1, 2011 before the license expires on December 30, 2011.

Effective December 7, 2005, the Corporation sold 50% of its interests in its Tigil and Icha licenses held at that time to KNOC Kamchatka Petroleum Limited ("KKPL"), a partially owned subsidiary of Korea National Oil Corporation ("KNOC"). Under shareholder agreements which were concluded on February 22, 2006, and the initial share purchase agreements, KKPL was to fund agreed upon amounts for certain initial expenditures incurred by the Corporation as follows: 50% of certain equipment acquired for use in the projects; 80% of the first $10,000,000 of exploratory expenditures with respect to the Icha and Tigil licenses; 53.75% of the next $20,000,000; and for costs in excess of $30,000,000, KKPL will pay between 50% and 52.5% (formerly 53.75%).

On October 5, 2007, the Corporation and KKPL, together with KNOC, signed a settlement agreement together with an amended and restated rig purchase contract, a rig loan agreement and a pledge agreement (collectively the "Settlement Agreement"). As part of these agreements, it was agreed that international arbitration proceedings initiated by KKPL and KNOC, as a result of disputes concerning the performance of the Corporation under the original agreements among the parties, was suspended. The status of the Settlement Agreement is as follows.

The Corporation, together with KKPL, committed to acquire a drilling rig for $16 million. At May 31, 2007, the first installment of $5,000,000 was paid by the Corporation and KKPL in the agreed cost sharing ratios. Under the terms of the Settlement Agreement, KKPL paid the second installment on the rig of $8.5 million, and granted the Corporation a loan for its share of the payment. During the six month period ended November 30, 2008, the Corporation repaid the KKPL loan and it paid all final payments with respect to the rig. Drilling rig costs include interest of $182,489 incurred on the rig loan.

The obligations of the Corporation under the Settlement Agreement are secured by a pledge of 51% of the Corporation's shares in the Tigil and Icha project companies, which own the Russian assets. The pledged shares are to be released on satisfaction of the payments required under these contracts and satisfactory performance under the project agreements or provision of acceptable security. Management considers that the Corporation's obligations under the Settlement Agreement have been met. This is supported by a letter dated July 29, 2009 from the International Court of Arbitration confirming KNOC and KKPL's withdrawal of its claims under the Settlement Agreement. The Corporation is requesting a release of the pledged shares and formal recognition of its 46.25% interest in the drilling rig.

5. Property and equipment (continued):

(b) Joint interest in drilling rig:

The Corporation has fully paid for its 46.25% interest in the drilling rig acquired with KKPL, as outlined above. The Corporation determined that this rig is not suited for the Russian drilling program, and has undertaken to sell the rig. No firm offers have been received to date. The Corporation obtained an independent appraisal of the current market value. The carrying value of the Corporation's 46.25% interest in the drilling rig was written down to its fair value as determined at May 31, 2009 and currently, resulting in a write-down of $2,482,417 at May 31, 2009 and a further write down of $982,582 during the three and six month periods ended November 30, 2009.

KKPL has not yet been able to obtain all of the information that it requires to be assured that the rig meets the contracted specifications so that it would be in a position to formally accept the rig. On August 18, 2009, KKPL initiated an arbitration proceeding in The International Court of Arbitration against Highkelly, the manufacturer of the rig, in respect of the claim by KKPL that Highkelly failed to comply with its contractual obligations to manufacture and deliver a customized rig to KKPL in compliance with specific contracted requirements. Pursuant to KKPL's request for arbitration, KKPL is seeking to reject the rig and recover the amounts paid or, alternatively, damages for the alleged breach.

(c) Canada:

At November 30, 2008, management reviewed the carrying values of its property and equipment and determined that a write-down of $75,417 was required with respect to the Canadian petroleum and natural gas properties and equipment. This represented all of the remaining carrying value of these properties. In 2009, the Corporation has expensed minimal costs to maintain its Canadian properties but is not currently conducting exploration activities on these properties.

6. Related party transactions and balances:

At November 30, 2009, there were no amounts receivable from directors or officers (May 31, 2009 - $nil). The Corporation's aggregate liabilities owing to directors and officers amounted to $252,589 as at November 30, 2009 (May 31, 2009 - $216,590) for services performed and expenses incurred in the normal course of operations.

In the six month period ended November 30, 2009, the Corporation repaid loans to a person who is a shareholder, officer and director in aggregate of $390,000 plus interest of $5,051. The loans were made to the Corporation during the year ended May 31, 2009.

7. Share capital:

In November 2009, PKP acquired PKR. Each Class A common Share of PKR was exchanged for one common share of PKP and each PKR Warrant was exchanged for a warrant of PKP on substantially similar terms and conditions as the PKR Warrants. PKP issued options in the same amounts and on substantially the same terms as the PKR options.

As the forgoing transactions do not substantially change the number of or nature of the share capital or the warrants and options, and the Corporation has adopted the continuity of interest basis of accounting, the following information concerning PKR is also applicable to the ongoing PKP Corporation.

(a) Common shares issued and outstanding:

	Six months ended November 30, 2009		Year ended May 31, 2009	
	Number Issued	Amount	Number Issued	Amount
Share capital balance, beginning of period	158,119,627	$69,731,912	131,107,734	$57,799,682
Issued for cash (i)	228,505,044	11,477,980	24,960,000	12,480,000
Less share issue costs (i)	-	(89,401)	-	(717,349)
Less portion representing warrant value	-	-	-	(321,944)
Issued for delay in public listing	-	-	17,562	-
Issued for settlement of claim	-	-	1,750,000	350,000
Issued for services	1,851,715	111,023	284,331	141,523
Issued for bonus	8,766,666	876,667		
Issued for settlement of liabilities (ii)	17,600,000	880,000	-	-
Issued for shares of a subsidiary (iii)	5,200,000	260,000	-	-
Issued for cash (iv)	61,828,486	9,274,273	-	-
Less share issue costs (iv)	-	(850,591)	-	-
Less portion representing warrant value (iv)	-	(78,516)	-	-
Issued to acquire Bluerock (note 1)	6,626,501	98,840	-	-
PKP shares	2	3	-	-
Share capital balance, end of period	488,498,041	$91,692,190	158,119,627	$69,731,912

7. Share capital (continued):

(a) Common shares issued and outstanding (continued):

i) At closings held on June 22, July 2, July 14 and July 15, 2009, the Corporation raised proceeds of $10,897,980 from the issuance of 217,959,590 common shares through a private placement offering to shareholders and others closely associated with the Corporation. In addition, $580,000 of late share subscription amounts related to this placement were received from two investors in payment for 10,545,454 common shares at a price of $0.055 per share, which were issued on November 26, 2009.

ii) On June 22, 2009, the Corporation issued 17,600,000 Class A common shares to one of its vendors for settlement of aggregate outstanding invoices of approximately $880,000.

iii) On August 11, 2009, the Corporation issued 5,200,000 Class A common and paid additional costs to acquire an additional 5% equity ownership of its Russian subsidiary from a minority shareholder. After this acquisition, PetroKamchatka owns 90% of its Russian subsidiary and the Urginskaya license at 90%. The Corporation's beneficial ownership of the Tigil and Icha licenses became 45% after this transaction.

iv) On October 6, 2009, the Corporation and its wholly-owned subsidiary, 1490697 Alberta Ltd., entered into an engagement letter with Canaccord Capital Corporation and Renaissance Securities (Cyprus) Ltd., as joint book runners, and Fox-Davies Capital Limited (collectively the "Agents") to raise, on a commercially reasonable best efforts basis, a private placement of subscription receipts. The subscription receipts were convertible, on a one-for-one basis, into common shares of the Corporation. The private placement was completed on November 26, 2009, following the completion of the Corporation's reorganization and Plan of Arrangement described in note 1. The financing resulted in the issuance at $0.15 of 61,828,486 subscription receipts, each of which converted to one common share of PKP, for gross proceeds of $9,274,273. The Agents under the Financing received an aggregate cash fee equal to $486,993 and received an aggregate 1,365,834 broker warrants ("Broker Warrants") pursuant to the financing. Each Broker Warrant may be exercised to acquire one common shares of the Corporation at a price of $0.15 per share, subject to adjustment, until November 19, 2011. The Broker Warrants (and the underlying common shares) are subject to a four-month hold period that will expire on March 20, 2010.

7. Share capital (continued):

(b) Warrants:

The following is a continuity of warrants issued to investors and brokers to November 30, 2009:

	November 30, 2009		May 31, 2009	
	Number	Amount	Number	Amount
Warrant balance, beginning of period	19,516,940	$ 6,960,263	21,866,217	$ 8,021,512
Issued to brokers	1,365,834	78,516	1,347,500	321,944
Issued to investors (note 1)	187,348	-		
Expired	-	-	(3,696,777)	(1,383,193)
Warrant balance, end of period	21,070,122	$ 7,038,779	19,516,940	$ 6,960,263

The following summarizes information on warrants issued to investors to purchase common shares that were outstanding as at November 30, 2009:

Exercise Price		Outstanding and	
$	Pounds	Exercisable	Contractual life
	0.525	5,760,809	Until fifteen days following the listing of the Corporation on a recognized public stock exchange (the TSXV is not considered a recognized exchange under the warrant agreement).
CAD 1.25		7,589,999	
CAD 0.10		187,348	May 14, 2010
		13,538,156	

The following summarizes information about warrants issued to brokers to purchase common shares that were outstanding as at November 30, 2009:

Exercise Price		Outstanding and	
$	Pounds	exercisable	Contractual life
CAD 0.50		28,800	December 10, 2011
	0.42	447,705	December 10, 2011
CAD 1.00		773,600	December 10, 2011
USD 0.50		4,916,027	December 10, 2011
USD 0.15		1,365,834	November 19, 2011
		7,531,966	

7. Share capital (continued):

(c) Stock options:

The Corporation has a stock options plan for employees, consultants, officers and directors. On October 16, 2009, the Board of Directors of the Corporation adopted a new stock option plan. Under the terms of the option plan, the Corporation may grant options up to 10% of the aggregate number of common shares outstanding, with no one optionee permitted to hold more than 5% of the total options outstanding in any 12 month period. The options granted may not be for a term exceeding five years and vest one-third each year from the date of grant. The exercise price of options is approved by the Board and cannot be less than the market price of its common shares on the day the option is granted.

The following options have been granted:

	Six months ended November 30, 2009	Year ended May 31, 2009
Outstanding, beginning of period	6,225,000	5,400,000
Granted	15,100,000	825,000
Outstanding, end of period	21,325,000	6,225,000
Exercisable, end of period	2,208,333	1,933,333

The fair value of stock options granted and warrants issued during the six month period ended November 30, 2009 was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Warrants	Options
Fair value of stock options granted in the year ended May 31, 2009 (per option)	-	$ 0.30
Fair value of stock options granted in the period ended November 30, 2009 (per option)	-	$ 0.06
Fair value of warrants granted in the year ended May 31, 2009 (per warrant)	$0.24	-
Fair value of warrants granted in the period ended November 30, 2009 (per warrant)	$ 0.06	-
Expected volatility	69%	69%
Risk free rate of return	3.2% to 4.3%	2.9% to 4%
Expected option life	2 to 5 years	5 years
Forfeiture rate	nil%	nil%
Dividend yield	nil%	nil%

7. Share capital (continued):

(c) Stock options (continued):

The following table summarizes stock options outstanding and exercisable at November 30, 2009:

	Stock Options Outstanding			Stock Options Exercisable	
Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 1.25 CAD	200,000	0.96	$ 1.25 CAD	200,000	$ 1.25 CAD
$ 0.50	6,025,000	3.17	$ 0.50	2,008,333	$ 0.50
$0.10	15,100,000	4.84	$ 0.10	-	$ 0.10
	21,325,000	4.33		2,208,333	

The following table summarizes stock options outstanding and exercisable at May 31, 2009:

	Stock Options Outstanding			Stock Options Exercisable	
Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 1.25 CAD	200,000	1.46	$ 1.25 CAD	200,000	$ 1.25 CAD
$ 0.50	6,025,000	3.66	$ 0.50	1,733,333	$ 0.50
	6,225,000	3.60		1,933,333	

For the three and six month periods ended November 30, 2009, the Corporation recognized compensation expense of $217,000 and $377,000, respectively (2008 – $276,347) with an equal and offsetting amount to contributed surplus, based on the vesting terms of the options.

(d) Contributed surplus:

Changes in contributed surplus are as follows:

	November 30, 2009	May 31, 2009
Beginning of period	$ 3,224,396	$ 1,266,573
Stock-based compensation	377,000	574,630
Expired warrants	-	1,383,193
End of period	$ 3,601,396	$ 3,224,396

8. Income taxes:

The Corporation has incurred expenditures in various jurisdictions, which are subject to tax authority approval. Any future tax asset would be offset by a valuation allowance due to the uncertainty surrounding the future utilization of the tax pools by the Corporation.

On August 25, 2009, PKR redomiciled to Cyprus. PKR is considered to have disposed of all its assets at fair value on the date of redomiciliation (note 1) and the Canadian tax pools were utilized as part of the redomiciliation process.

9. Financial instruments and risk management:

(a) Capital management:

As an exploration company, operations are financed principally through equity. Therefore, the Corporation's capital consists of shareholders' equity. The Corporation's objectives when managing capital are to; sustain its ability to continue as a going concern; maximize returns for shareholders and benefits for other stakeholders; and provide resources to enable growth.

The Corporation manages the capital structure and responds to changes in economic conditions and planned requirements. It will continue to use cash from equity offerings to fund operations and invest in its capital expenditure program. Future capital strategies may include debt financing and obtaining strategic partners to fund a portion of its projects.

There are no external restrictions on the Corporation's capital.

(b) Fair values:

The fair value of the Corporation's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximated their carrying values as at November 30, 2009 and May 31, 2009.

(c) Financial instrument risk exposure and management:

The Corporation is exposed to various risks associated with its financial instruments. These risks are categorized as market risk, credit risk and liquidity risk.

Market risk:

Market risk is the risk that changes in market conditions, such as commodity prices, exchange rates and interest rates, will affect the Corporation's net earnings or the value of its financial instruments. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns.

9. Financial instruments and risk management (continued):

(c) Financial instrument risk exposure and management (continued):

Commodity risk:

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can also reduce the Corporation's ability to raise capital. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. In the future, the Corporation may attempt to mitigate commodity price risk through the use of financial derivatives. The Corporation does not have any oil or gas production and does not have any risk management contracts in place as at or during the three or six month periods ended November 30, 2009 and 2008.

Foreign currency risk:

The Corporation is exposed to foreign currency fluctuations as it holds cash and incurs expenditures in property and equipment in foreign currencies. The Corporation incurs expenditures in Russian rubles and Canadian dollars and is exposed to fluctuations in exchange rates in these currencies. There are no exchange rate contracts in place as at or during the three or six month periods ended November 30, 2009 or 2008.

A 1% change in foreign exchange rates between the Russian ruble and the U.S. dollar would have resulted in approximate $27,000 change in net loss for the six month period ended November 30, 2009.

Credit Risk:

Financial instruments that potentially subject the Corporation to concentration of credit risk consist of accounts receivable.

There is no credit risk on accounts receivable. Accounts receivable consists of Russian value added taxes (note 4) and amounts due from the Canadian Government. All amounts were received subsequent to the end of the period.

Liquidity Risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation's financial liabilities consist of accounts payable and accrued liabilities. Accounts payable consists primarily of invoices payable to trade suppliers or professionals for capital expenditures and services rendered.

The Corporation prepares budgets for its corporate operations and capital expenditure programs which are regularly monitored and updated as considered necessary.

10. Supplemental cash flow disclosures:

(a) Change in non-cash working capital (provided by (used in)):

	For the three month period ended November 30, 2009	For the six month period ended November 30, 2009	For the six month period ended November 30, 2008
Accounts receivable	$ (607,500)	$ 507,255	$ 5,056,561
Prepaid expenses	21,956	(35,137)	(49,756)
Accounts payable and accrued liabilities	2,109,302	(2,453,521)	(3,393,856)
Less unrealized gain (loss) on working capital	(61,720)	78,182	999,703
Less non-cash working capital acquired from Bluerock (note 1)	(72,320)	(72,320)	-
Less shares issued for accounts payable	61,370	941,370	-
Change in non-cash working capital	1,451,088	(1,034,171)	2,612,652
Less changes in non-cash working capital related to investing	(144,148)	1,093,104	4,087,501
Less changes in non-cash working capital related to financing	(198,111)	(228,793)	(6,563,344)
Changes in non-cash working capital related to operations	$ 1,108,829	$ (169,860)	$ 136,809

Property and equipment expenditures in investing activities exclude non-cash amounts of $543,333 related to shares issued for property and equipment costs.

Cash interest of $5,051 was paid during the three and six month periods ended November 30, 2009 (2008 - $182,489).

11. Commitments and contingencies:

Under the Corporation's Russian exploration licenses the Corporation is committed to complete seismic programs and drill wells by certain dates in order to retain its licenses (see note 5).

The Corporation is committed to making payments with respect to its office leases in Canada which expire on October 31, 2013 and June 30, 2013.

Future net minimum lease payments for these leases are as follows for the fiscal years ended:

2010	$	126,000
2011		252,000
2012		252,000
2013		252,000
2014		52,000
	$	**934,000**

12. Subsequent events:

On December 11, 2009, the common shares of the Corporation were listed and commenced trading on the TSX Venture Exchange.